The Last Time Banks Did This... They Caused A Financial Crash w/Richard Wolff

https://www.youtube.com/watch?v=OuQ0-QTANYE

Banks make their money from depositors by lending to others. Banks lend out almost all the money they have on deposit and this means that there could be a bank panic if a lender can't retrieve their deposits. The banks are supposed to hold a percentage of every dollar in reserves, which means they have a large pile of money. What happens if the government wants to stimulate the economy, by telling the banks they can lend out part of their held deposits or all of it? The last time the banks were able to lend out their reserves... we found ourselves in a global financial crash! Dr. Richard Wolff explains to Thom how all this works.

so both the Chinese and the American you know regular to bank regulatory agencies are talking about reducing reserve requirements on their banks this is a really big deal this is what led in part to the crash of 2008 I'll tell you all about it right here and by the way don't forget to ding the bell subscribe to our channel comment if you would like and share this with your friends I wanted to check in with Professor Richard wolf he is the economist the co-founder of democracy at work dot info the author most recently of understanding Marxism as democracy worked out info website is there as well as Rd wolf with two FS com is more personal website you can tweet him at prof wolf PR o f wo l FF dr. wolf welcome back to the program thank you Tom glad to be here it is always so

great to have you
so I read in the Financial Times that
China is lowering the reserve
requirement for their banks and I
believe that I've heard that the Trump
administration is also trying to roll
back reserve requirements on banks and
and then on top of that yesterday I was
reading I think it was in the Financial
Times how they want to radically roll
back the little tiny reserve
requirements that Fannie and Freddie
have apparently Fannie and Freddie are
sitting unless something like six
billion dollars to secure a trillion
dollars where the mortgage is some
mind-boggling amounts of numbers I don't
think most Americans even know what a
reserve requirement is or what this
means and you're so good at translating
this econ speak into English could you
could you tell us what's going on here
and how it ties down the crash of 2008
will do will do okay let's begin with
what banks basically do we the people
and businesses put money into the bank
for safekeeping for record-keeping and
all the rest make our payments normally
the banks give us little or nothing for
doing so but then they take the money we
deposit and lend it out take the most
extreme example we these days put money
into a bank
literally half of 1% 1% and the bank
turns around and lends that money out to
people who use credit cards charging
them in the neighborhood of 16 17 18 or
more percent in short how banks make a
big part of their money is by getting us
to give them deposits on which they pay
a little and then turning around and
lending that money out at interest rates
that earned them a lot with our money
and the problem has been that banks who
love this arrangement for reasons it
should be obvious have a tendency to

lend out pretty nearly every nickel we give them because obviously the more of our money they lend out the fatter the profit they take home the big problem here is if for any reason a large number of us want our deposits back which after all they're ours and we have every right to them the bank would not be able to give them back to us because they've lent them out and that has led periodically to what used to be called honestly a bank panic because people panicked realizing that they might get to the bank and be told that their deposits could not be and might not ever be returned to them in the face of this greedy behavior by banks the government passed a law requiring reserves to be held by banks the reserve requirement is that law it says for example that for every dollar deposited in a bank the bank has to keep 20 cents or 18 cents or some percentage in that neighborhood which it cannot lend out which it has to keep as a kind of insurance policy that in the event depositors or want their money back

they will not be in a position of having to say no causing a panic causing the whole economy to totter and collapse but what that means is every bank has a big bunch of money the money that they are not allowed to lend out because of this insurance for depositors and it's very tempting for a government that wants to stimulate the economy to lower the reserve requirement basically telling every bank you don't have to keep whatever we were telling you you had to say 20 percent we're lowering it to 15 percent which means five dollars for every hundred that you used to keep as a reserve you are now free to lend and the point of that is to get every bank to begin beating the bushes to get that money into the hands of interest

paying borrowers and thereby stimulate the economy that's what China is doing and a desperate mr. Trump worried about a recession between now and re-election time in November 2020 is trying to do everything he can lower interest rates even proposed yesterday negative interest rates but cutting reserve requirements is typically a more massive kind of stimulus because it isn't the government doing something it's literally the government allowing every bank large and small to do that now we know that Donald Trump has borrowed over a billion dollars and and from what little we have of his financials it looks like he's sitting on between three and four hundred million dollars in loans just from deutsche bank right now so if the interest rate if the Fed fund rate go to zero from where they are right now doesn't that mean that suddenly Donald Trump doesn't have to pay millions of dollars a year on interest absolutely he will do what we call refinance he will he will borrow money at zero interest or if he could really engineer this game he could borrow at a negative interest rate which means the bank pays him to be a borrower that's what negative interest rates mean he could borrow money as little or no interest use it to pay off the loans he now has which are carrying high interest and it would be a big improvement for his finances and for everybody else who might do that of course if you lower reserve requirements and you lower interest rates you are inviting every speculator in the world to see an opportunity because money is now so cheap to borrow or if it goes to negative banks will pay you to borrow so any wild harebrained scheme you might have been playing with is now a more attractive opportunity that it even was

before so if we're worried that the kind
of crash from irresponsible speculation
that we had in 2008 is is down the road
cutting interest rates particularly to
negative and lowering reserve
requirements only stimulates even more
speculation and the inevitable bursting
of that bubble down the road but mr.
Trump and the Republicans clearly don't
care they are like King Louie the 16th
in France they're gonna do what's
necessary hope to get reelected and then
when the crash comes we will hear them
say as louis xvi did after me comes the
deluge but meanwhile i'm gonna have the
ride of my life yeah yeah remarkable now
to those reserve requirements so the
banks are sitting on hundreds of
billions of dollars in reserve and
there's this thing called proprietary
trading where the banks use quote their
own money to gamble in the stock market
and you know I understand that at
various times we've had laws that say
you can't use and and an a is when we
say their own money does that their
profits that they're gambling or are
they gambling the reserve money which is
basically our money and what's the you
know I know that this the the laws
changed on this numerous times since the
1920s what has happened how is it going
back and forth where are we at right now
we got about two and a half minutes so
we hit a hard break
okey doke in the Great Depression it was
clear that one of the crazy things going
on was that the banks were using the
depositors money to make all of these
speculative investments again remember
they profit if they make a good
investment and they have virtually no
expense because we give them our
deposits as little or nothing so they
are very tempted to make these
speculative investments and they did it

with our money one of the reforms that came out of the Great Depression was to create a wall it was called the glass-steagall Act and it basically said the bank cannot use depositors money for speculative or long-term or risky investments if the bank wants to do those investments it either has to use the money of the people who started the bank that's called the bank capital or the accumulated profits as you just mentioned or the bank can go into the world of high finance and borrow money from investors making it crystal clear and transparent that they are going to speculate with the investors money but not with the depositors money when Bill Clinton signed the repeal of the glass-steagall Act in the 1990s that wall of separation came down banks had been evading it for all the usual reasons mainly to make more profits we allow our monetary system to be controlled by people whose first priority is their own profit and so they weaken the law they evade the law they amend the law and with mr. Clinton they were able to basically repeal it we are back to square one creative accounting allows banks to mix different kinds of money for all kinds of investments that's what they have teams of lawyers accountants and economists like me to do and they are always
incentivize because in the capitalist system we live in what they pay us for the money we give them is so much less than what they can get by speculating that they would have to be every day as Sunday in church kinds of people not to take advantage of that and thereby put the entire financial system at risk so where are we at right now are they speculating with the reserve funds absolutely they are taking unbelievable chances because it's virtually costless

for them to do so if they make a bad
speculative investment a really bad one
they declare bankruptcy end of
conversation
they are getting money from us people
who are listening to this program or
watching it know they get our deposits
for next to nothing
so it's cheap money and they are
incentivized to go out and try to make a
killing with it and that's what they're
doing